Equity Outlook JUNE 2019 "Turning point"

We have been saying this for a long time that markets move in cycle. However it is important to observe and note when is the market cycle changing. Bull markets follow a bear cycle and vice-versa. We are currently coming out of a bear phase for the mid and small cap companies. All actions in the present are taken under prevailing circumstances and it really makes sense to gauge the prevailing circumstances, make a reasonable assessment of the future and take action in the present.

To our mind we are at a cusp of turning point. We only realise in future, if it was a historic movement in the past. We believe we are currently passing one such historic movement. The mandate given by people of India is known to all, however few can ascertain, the implications it will have on the future. We say we are at cusp of turning point for a bull market for various reasons.

First – we have witnessed a bear markets until recently till Feb 14 (Pulwama Incident) and the last nail in bear market coffin was nailed on Feb 26 (Balakot attack). So for bull market to start – the preceding period should be one of a bear market.

Second – The retail participation should be at bottom. Currently in the markets – the retail investor is controlling the reins of investments and is acting carefully, with fear in his mind. The mindset has not changed from fear to greed.

Third – The normalised indices of Sensex, Midcap and Small cap are all converging back to mean levels. This to our mind is biggest indicator of changing times ahead.

Fourth – Economic Indicators are not healthy, the business commentary from corporate are sounding low and not indicating healthy growth but a muted outlook.

Fifth – We are approaching the end game of ridiculous nexus between lenders (Banks etc) and borrowers (Promoters). The road map has been laid out and these inflated assets might get sold to foreign capital for a dime.

Given all of above visible circumstances – we believe we are at cusp of turning point. The current mandate from people has given lot of power and responsibility to the new government to work on the missing leg of job creation. Lets roll forward to say 2023 and visualise how things could be. Cut to 2023

First - Credit cycle is much better – bad assets / promoters have got sold (thanks to IBC) to good assets / promoters.

Second – Privatisation of Public Sector undertaking is in full swing.

Third – Many companies are lining up for equity offerings either through preferential placement, QIPs, IPOs etc.

Fourth – Animal spirit are at peak due to credit expansion and given better business confidence.

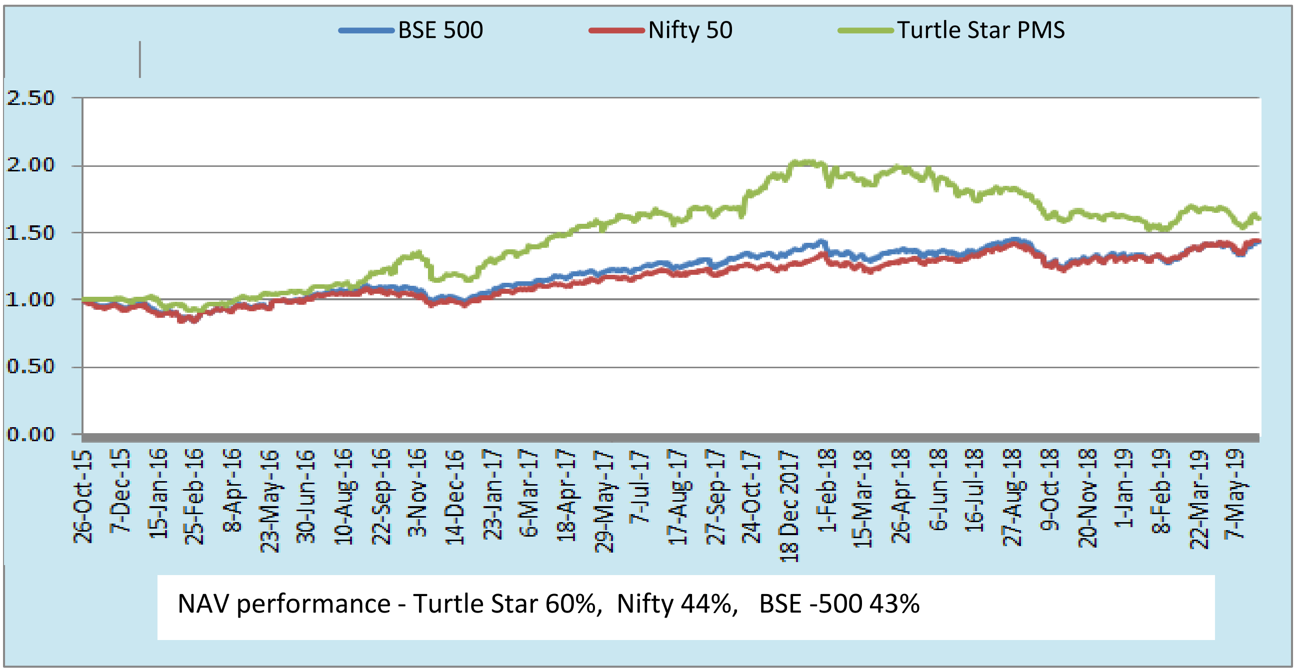
Fifth – The Normalised index of mid and small cap stocks have hit the roof in comparison to the sensex or the large cap universe.

Sixth – Skilled quality manpower is in shortage.

It is such situation when the cycle turns. We shall go through a phase of transition. We shall see liquidity being infused from the government to revive the reeling solvency / liquidity issue in the economy. This step would be taken as it can affect government's collection on the GST. Also government with its strong mandate shall work towards reviving investment (infrastructure spend) and export cycle.

Given all these factors and also that there is dearth of opportunity for investments in other asset class for domestic investors and for global investors there is shortage of available geographies to invest in with such political capital, there shall be money flow towards equity asset like never before. We continue to invest for one of the best back ended three years in future.

Sunil Shah – Portfolio Manager – Turtle Star Portfolio Managers



NAV performance - Turtle Star 60%, Nifty 44%, BSE -500 43%